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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-seventh Meeting
Montreal, 21-25 November 2005

PROJECT PROPOSAL: PHILIPPINES

This document consists of the comments and recommendation of the Fund Secretariat on the following project proposals:

Phase-out

- National CFC phase-out plan: 2006 annual programme World Bank
- National CFC phase-out plan servicing sector: 2006 annual programme Sweden

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**PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS
PHILIPPINES**

PROJECT TITLE **BILATERAL/IMPLEMENTING AGENCY**

National CFC phase-out plan: 2006 annual programme	World Bank
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SUB-PROJECT TITLES

(a) National CFC phase-out plan servicing sector: 2006 annual programme	Sweden
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NATIONAL CO-ORDINATING AGENCY:	Department of Environment and Natural Resources
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LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT

A: ARTICLE-7 DATA (ODP TONNES, 2004, AS OF SEPTEMBER 2005)

Annex A Group I: CFC-11	309.40		
Annex A Group I: CFC-12	1,080.41		

B: COUNTRY PROGRAMME SECTORAL DATA (ODP TONNES, 2004, AS OF SEPTEMBER 2005)

ODS	Foam	Ref.	Aerosol	ODS	Solvents	Process agent	Fumigant
CFC-11	74.05	235.35					
CFC-12		1,078.45	1.96				

CFC consumption remaining eligible for funding (ODP tonnes)	n/a
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CURRENT YEAR BUSINESS PLAN: Total funding US \$3,122,000; total phase-out 492.0 ODP tonnes.

PROJECT DATA		2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
CFC-11, CFC-12 (ODP tonnes)	Montreal Protocol limits										
	Annual consumption limit	2,017.6	1,960	1,810	1,509	1,360	453	400	300	300	
	Annual phase-out from ongoing projects										
	Annual phase-out newly addressed			150	301	149	907	53	100	100	
	Annual unfunded phase-out										
TOTAL ODS CONSUMPTION TO BE PHASED OUT											
Project cost as originally submitted (US \$)											
Final Project costs (US \$):											
Funding for lead agency: World Bank		2,858,473	1,877,418	2,160,071	2,873,197	337,717	110,000	0	0		10,216,876
Funding for Sweden		152,400	166,134	40,000	0	0	0	0	0		358,534
Total project funding		3,010,873	2,043,552	2,200,071	2,873,197	337,717	110,000	0	0		10,575,410
Final Support costs (US \$)											
Support cost for lead agency : World Bank		248,663	160,968	186,006	248,588	20,795	5,500	0	0		870,520
Support cost for Sweden		11,316	12,952	2,000	0	0	0	0	0		26,268
Total support costs		259,979	173,920	188,006	248,588	20,795	5,500	0	0		896,788
TOTAL COST TO MULTILATERAL FUND (US \$)		3,270,852	2,217,472	2,388,077	3,121,785	358,512	115,500	0	0		11,472,198
Final project cost effectiveness (US \$/kg)											n/a

FUNDING REQUEST: Approval of funding for the fourth tranche (2005) as indicated above.

SECRETARIAT'S RECOMMENDATION	Blanket approval at the costs indicated above
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PROJECT DESCRIPTION

1. The World Bank has submitted to the 47th Meeting, on behalf of the Government of the Philippines, a document requesting approval of US \$2,873,197 in funding and US \$248,588 in support costs for the 2006 annual implementation programme of the Philippines national CFC phase-out plan (NCP). The document consists of:

- (a) Part I: 2005 annual programme accomplishments;
- (b) Part II: 2006 annual plan; and
- (c) Part III: Consumption verification for 2004.

Background information

2. The Philippines national CFC phase-out plan was approved at the 38th Meeting of the Executive Committee in November 2002, with a total value of US \$10,575,410 and agency support costs of US \$896,788 approved in principle to phase out 2,017.6 ODP tonnes of CFCs. The plan is being implemented over eight years from 2002-2009. The first tranche of US \$3,010,873 with agency support costs of US \$259,979 was approved at the 38th Meeting in December 2002 for the first phase (2002-2003) with expected CFC phase-out of 31.7 ODP tonnes. The second tranche was approved at the 41st Meeting in December 2003 at US \$2,043,552 for the implementation of the 2004 work plan with expected phase-out of 150 ODP tonnes and the third tranche was approved at the 44th Meeting in November 2004 at US \$2,200,071 for the implementation of the 2005 work plan to phase out 301 ODP tonnes.

3. The CFC control targets and disbursement schedule under the agreement are shown in the table below:

Table 1: Disbursement schedule and control targets for total CFC phase-out in the Philippines (ODP tonnes and US \$)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Maximum allowable CFC consumption	2,049.3	2017.6	1,960	1,810	1,509	1,360	453	400	300	0	
Reduction from ongoing projects	-	31.7	-	-	-	-	-	-	-	-	31.7
New reduction under plan	-	-	57.6	150	301	149	907	53	100	300	2,017.6
Total annual reduction	-	31.7	57.6	150	301	149	907	53	100	300	2,049.3
Agreed funding (WB Component I)	-	2,858,473	1,877,418	2,160,071	2,873,197	337,717	110,000	0	0		10,216,876
WB support costs	-	248,663	160,968	186,006	248,588	20,795	5,500	-			870,520
Agreed funding (Swedish Component II)	-	152,400	166,134	40,000	0	0	0	0	0		358,534
Swedish bilateral support costs	-	11,316	12,952	2,000	0	0	0	0	0		26,268
Total agreed funding (US \$)	-	3,010,873	2,043,552	2,200,071	2,873,197	337,717	110,000	0	0		10,575,410
Total agency support costs (US \$)	-	259,979	173,920	188,006	248,588	20,795	5,500	0	0		896,788
Total cost to the MLF		3,270,852	2,217,472	2,388,077	3,121,785	358,512	115,500	0	0		11,472,198

4. Payments in 2005 and subsequent years are subject to:
- (a) Achievement of the reduction targets and consumption limits specified in Table 1 and the other performance requirements contained in this Agreement;
 - (b) Approval of the annual implementation programme for the following year; and
 - (c) Compliance with the milestones outlined in Table 12.2 of Chapter 12 of the NCPP and the relevant annual implementation programme.

5. In addition, payments in 2005 will be released based on confirmation that: the agreed reductions and maximum consumption targets noted in Table 1 for the previous year have been achieved; it has been verified that CFC phase-out has taken place; and a substantial proportion of the activities planned for the previous year were undertaken in accordance with the annual implementation programme.

6. The maximum allowable CFC consumption level in the Philippines for 2004 was set at 1,810 ODP tonnes. Verified CFC consumption based on actual import in 2004 was at the level of 1,389.81 ODP tonnes. This amount includes 38.64 ODP tonnes illegally imported by one company and 22.40 ODP tonnes of 2004 quota imported by one company in 2005. The 2004 consumption was 420.19 ODP tonnes less than the maximum allowable consumption level listed in Table 1 of the Agreement. Based on quotas issued by the Government as well as unallocated quotas, CFC consumption in 2005 is projected to be 1,314 ODP tonnes, 195 ODP tonnes below the maximum allowable consumption of 1,509 ODP tonnes established by the agreement. The actual CFC consumption level will be provided in the 2006 verification report.

7. Based on information obtained by the Government through addressing the remaining CFC-based manufacturing sector in 2004 and 2005, the consumption reduction target of 301 ODP tonnes was achieved from completed investment projects as follows:

Foam manufacturing	171.74 ODP tonnes
Refrigeration	0 ODP tonnes
Servicing sector	<u>129.26 ODP tonnes</u>
	301.00 ODP tonnes

Industry actions

8. The downward trend in the consumption of CFC in foam and refrigeration manufacturing continued, driven by the regulatory climate and market trends. These include:

- The impact of the Revised Chemical Control Order (CCO) for ODS which prohibits the use of CFC-11 as blowing agent. CFC-11 can no longer be imported as of April 2005;
- Lower prices of alternatives, such as methylene chloride (which is half the price of CFC-11);
- Higher cost of manufacture of refrigerated display cases as against assembly of imported units;

- Preference for the use by cold storage owners of purchased insulated panels to foam spraying by contractors.

9. In the aerosol sector, the number of manufacturers of tear gas with CFC-12 propellant has dwindled and by 2005 only one manufacturer remained. Consumption of CFC-12 continued in 2004 at a lower amount than in 2003 and it is believed that the company switched to HFC-134a in 2005.

10. A survey conducted among the five major pharmaceutical companies in 2004 identified 1,063,071 units of CFC-free MDIs sold on the market against 271,138 units of CFC-containing MDIs. An MDI strategy has been prepared and adopted and needs to be implemented, including labelling, in 2006, together with banning of some types of CFC-based MDIs. Support for workshops to build awareness and generate support for the MDI strategy have been provided by the project management unit (PMU) and department of health (DoH).

Technical assistance activities

11. The NCPP includes a comprehensive technical assistance programme aimed at assisting the manufacturing and servicing sectors in safe and sustainable phase-out of CFCs.

12. In the foam and refrigeration manufacturing sectors the focus of activity is in assisting enterprises, which have stopped the use of CFCs on their own, to upgrade their health and safety measures through the supply of ventilation and other safety equipment and technical assistance. Manufacturing activities of those which have phased out through Multilateral Fund funded projects will also be regularly monitored to ensure that the CFC phase-out is sustained.

13. In the servicing sector, several activities to upgrade skills and raise technical standards for the sustainable recovery and recycling programme are being developed and implemented. These include:

- A voucher system to provide tools and equipment to service shops, including certification of suppliers of tools and equipment;
- Training and assessment (certification) of technicians;
- Development and implementation of a code of practice;
- Development and implementation of mandatory inspection of motor vehicles with mobile air-conditioning (MAC) systems;
- Public awareness campaigns.

14. Most components of the national approach to address the refrigeration air-conditioning and MAC sub-sectors in the servicing sector are in place, however, several delays have slowed full implementation of the voucher system and the application of new rules and policies. For instance, commencement of the voucher system has been postponed while the Department of Environment and Natural Resources considered with its partner agencies whether the plans for the training component of the servicing scheme in the NCPP should be revised in light of recommendations received by the monitoring and evaluation team of the Multilateral Fund in

December 2004. It has taken more time to achieve coordination and agreement between various agencies on the accreditation and certification scheme for the training centres and technicians. However, the Project Monitoring Unit (PMU) has had regular discussions and held meetings with the relevant Government agencies with the view to expediting the implementation of the programme.

15. The pilot voucher scheme was finally launched in the spring of 2005 and draft guidelines for processing voucher applications prepared. Procedures for processing voucher applications and registration and accreditation of service personnel were initiated and some selected technicians are scheduled to begin training in October 2005.

16. The final version of a code of practice was agreed and 5,000 copies were printed in March 2005. Information campaigns including several orientation meetings and newspaper advertisements were carried out by the project monitoring unit.

17. Work continued on the development and implementation of the mandatory inspection scheme for motor vehicles with MAC systems. A public hearing attended by district and regional officers of the Land Transportation Office (LTO) as well as public transport groups was organized on the draft administrative order for the inspection regime. Issues arising from these consultations were compiled and reviewed by a legal consultant. A manual on the MAC component of the NCPP has been published and distributed to LTO personnel and regional ODS officers.

Facilitating establishment of reclamation facility

18. The list of equipment and specifications for the reclamation facility were finalized and agreed with the Philippine Association of Refrigerant Inspectors Inc. (PAR). Following consultations with SIDA, fees for consultants to support the refrigerant reclamation facility have been agreed.

19. Numerous orientation seminars were organized targeting mainly major air-conditioning equipment manufacturers, refrigeration service shops, industry organizations and building managers on the new refrigerant management tools, code of practice, reclamation scheme, voucher system and accreditation scheme. News releases and articles were published in six national newspapers and radio shows were organized to promote the activities.

Audit of 2004 CFC consumption

20. As required by the Agreement on the NCPP, the Government commissioned an independent audit of CFC phase-out. An audit of the 2004 consumption and CFC phase-out data was conducted by an independent auditing consultant. A copy of the report was attached to the request for release of the fourth tranche for information and is available on request. The consumption verified by the audit was 1,389.81 ODP tonnes, corresponding to the figure reported under Article 7 to the Ozone Secretariat. Achievement of the 2005 reduction performance target will be similarly confirmed by an audit report in the 2007 annual programme.

Budget and financial performance

21. A table showing the amounts approved for the phase-out plan from the 2003 to 2005 annual programmes was included in the status report of the 2005 annual programmes. Information was provided on the distribution of the approved amounts and their disbursement. The following table shows the result of the analysis of the information provided on the budget and financial performance. Analysis of the information shows that at the end of 2005 only 30 per cent of the funds allocated in the annual programmes as subsidies for purchasing refrigeration servicing and MAC servicing equipment is likely to have been disbursed.

Budget and Financial Performance of Philippine NCPP

Sector	Allocation of approved funds (US\$)	Amount disbursed in 2003 (US\$)	Amount disbursed in 2004 (US\$)	Amount disbursed as of August 2005 (US\$)	Projected disbursement (September-December 2005 (US\$)	Total disbursement 2003-2005 (US\$)	Approved amount remaining unutilized at end 2005 (US\$)	% disbursed as at end 2005
Manufacturing	1,043,429.00	3,250.57	0	20,592.81	778,096.74	801,940.12	241,488.88	76.9
Service	5,343,667.00	44,374.24	114,391.20	899,527.00	568,527.81	1,626,820.25	3,716,846.75	30.4

Annual implementation programme for 2006

22. Under the 2006 annual programme, the Philippines will be limited to a maximum CFC consumption of 360 ODP tonnes requiring a net CFC phase-out of 149 ODP tonnes. This will be met through activities in the service sector and through the enforcement of the ban on the consumption of CFC-11 in the foam and refrigeration manufacturing sectors which took effect in 2005.

23. A set of activities are envisaged, including continuation of those activities initiated in previous years. These include:

- Monitoring of completed foam and refrigeration manufacturing projects to ensure compliance and completion of any remaining projects;
- Technical assistance to the MDI sector;
- Technical assistance for MAC inspection and training;
- Implementation of the Code of Practice to ensure improved standards of servicing;
- Implementation of the voucher system to provide tools and equipment for proper servicing of refrigerators and air-conditioners;
- Establishment of the reclamation facility and implementation of the reclamation scheme.

24. The budget of the 2006 programme is as follows:

Financial subsidy for purchasing refrigeration servicing equipment	US \$1,169,136
Financial subsidy for purchasing MAC servicing equipment	US \$1,338,586
Financial subsidy for purchasing MAC recovery and recycling machines	US \$115,475
Sub-total	US \$2,623,197
Project implementation and monitoring unit	US \$250,000
TOTAL	US \$2,873,197

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

25. Conditions for release of funds for the Philippines' annual programmes are set out in paragraph 4-6 above. The review of the status of implementation of the NCPP revealed that the country achieved the reduction targets and the specified consumption limits. Its 2004 reported CFC consumption of 1,389.81 ODP tonnes is about 420 ODP tonnes less than its maximum allowable CFC consumption for the year of 1,810 ODP tonnes. The reduction target of 301 ODP tonnes was also achieved.

26. The Philippines appeared to experience implementation difficulty in the servicing sector as evidenced by the low level of disbursement. The World Bank explained that initial delays to set up and staff the PMU, coordinate activities between the many agencies and actors involved in implementation, to complete inter-agency agreements (memoranda of understanding), and to develop new policies, regulations and standards across agencies to support a comprehensive approach to accreditation and certification, have been largely overcome.

27. Although several difficulties were encountered in moving into full scale implementation of the voucher system and application of new rules and policies, most components of this comprehensive approach are now in place. The Government, in cooperation with the World Bank and Government of Sweden, launched a pilot voucher scheme in the spring of 2005 and the first group of technicians have undergone training. The lessons learned from the pilot scheme have enabled the Government to streamline the process and take necessary measures to expedite implementation of the activities in the service sector.

28. With those measures it is expected that the Philippines will be able to disburse the majority of the funds allocated to date for equipment subsidies in the servicing sector, especially as the impact of the Code of Good Practices as well as policies, such as that of the Land Transportation Office on mandatory vehicle inspection, which takes effect in early 2006, become discernible.

29. The Government is concerned about the possibility of a loss of momentum in 2006 if the programme is undercut by a shortage of funds. Thus, the World Bank indicates that the 2006 funding tranche is needed to avoid any possible interruption in addressing the servicing sector in the next 18 months.

RECOMMENDATION

30. The Fund Secretariat recommends blanket approval of the fourth tranche of the project at the funding level and associated support costs shown in the table below:

	Project Title	Project Funding (US \$)	Support Cost (US \$)	Implementing Agency
(a)	National CFC phase-out plan: 2006 annual programme	2,873,197	248,588	World Bank
